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INSTRUMENTS OF MONETARY-AND-CREDIT POLICY IN TERMS OF ECONOMIC INSTABILITY

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ABSTRACT

The article considers the problems of monetary-and-credit policy in the conditions of economic instability. The banking structure, with a detailed description of each component, is considered. Monetary-and-credit policy methods and instruments have been classified. The peculiarities of monetary regulation of the domestic economy in the context of transformation processes are characterized. The features and objectives of the monetary policy of the central bank are classified and described in detail. The use of reserve requirements in transition economies is considered. Revealed and substantiated the main threats to the monetary security of Ukraine. The factors limiting monetary policy are revealed. The substantiated need for modernization of *available instruments of monetary policy of Ukraine in the conditions of market restrictions in the domestic and foreign markets and identified alternative instruments of influence on economic growth available to the NBU.*

Keywords: Bank, Economic Instability, Instruments, Monetary-and-credit Policy

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1. INTRODUCTION

The basis for the effective functioning of the financial system in the national economy is such monetary policy parameters that allow for economic growth. There were widely known examples when the state achieved acceptable rates of development of the national economy due to an efficiently built system of state economic and monetary policy (flexible and well-thought-out policy of regulators, a competitive and robust banking system, stimulating interest rates). In contrast, the opposite examples (economic growth "contrary to" state policy) is sporadic [1-5].

The economic policy of the state, an integral element of which is monetary policy, is an essential factor in the formation and functioning of a developed economy. Competent monetary policy is a prerequisite for sustainable economic development. In fact, it is an element of infrastructure, a "necessary but not sufficient" growth factor [6-8]. The direct drivers of economic development are the actions of commercial agents, investment processes, innovative solutions, but without an environment formed by monetary regulation, sustainable development is impossible. The primary recipient of monetary regulation is the banking system, through which, and through which, the Central Bank exercises its management.

New realities in the domestic market and international commodity and financial markets are pushing the central banks of the countries of the world to look for new approaches in monetary policy, to rethink the established ideas about the goals and functions of regulation.

2. MONETARY-AND-CREDIT OF UKRAINE

Central Bank – an institution (mainly a government body) that regulates the activities of banks in a country pursues monetary (monetary) and exchange rate policies of the state (US Federal Reserve) or the community of nations (European Central Bank). In Ukraine, it is the National Bank of Ukraine.

The central bank may perform (depending on the country) the following functions:

- banking regulation and supervision (ensuring the stability of the banking system),
- formation and implementation of the monetary policy of the state,
- management of money supply, which also includes a monopoly right to issue money,
- the creation and implementation of exchange rate policies, including, where appropriate, monetary interventions
- management of the country's gold and currency reserves,
- keeping accounts for interbank payments.

When it is changed vital rates, the interest rate is reduced to commercial value. There is a decrease in bank deposits and a decrease in deposits to customers. The Affordable Guide will help you open the door to customer loyalty and give you the right way to get in touch with your organization.

Monetary-and-credit policy is an integral part of state economic policy and is implemented by the National Bank of Ukraine (NBU).

The banking system of Ukraine is a component of the state's economic system, which includes the National Bank of Ukraine; other banks (residents and non-residents registered in accordance with the procedure established by law in the territory of Ukraine); non-bank financial institutions, the sole activity of which is to accept deposits, make loans or maintain accounts with clients; Private Deposit Guarantee Fund; banking infrastructure, and the relationships and relationships between them [9-11]. Today, the banking system of Ukraine is one of the most developed elements of the economic mechanism, since its reform was started earlier than other sectors of the economy, which was determined by the critical role of banks in solving the problems of transition to the market.

The banking system of Ukraine, in general, is presented in Fig. 1.

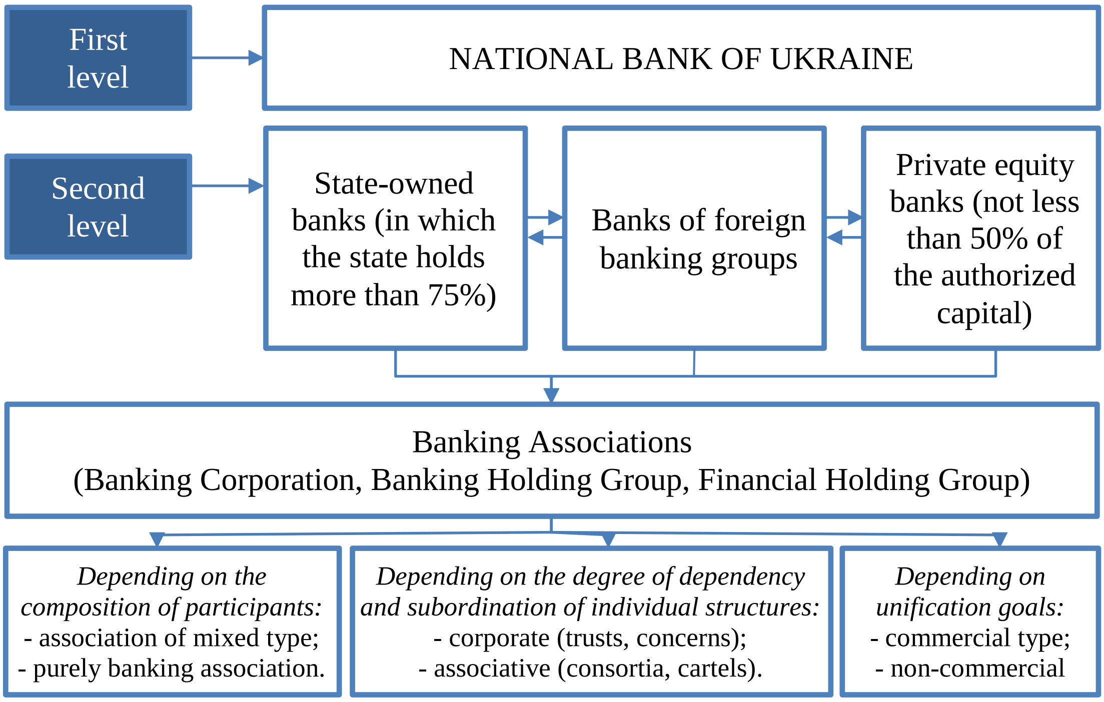

Figure 1 Structure of the banking system of Ukraine

The banking system of Ukraine has a high level of segmentation. Each December, the National Bank of Ukraine approves the division of banks into groups for the following year, since 2017, the classification is valid only based on ownership (Table 1). In general, the banking system of Ukraine is characterized by a high level of competition and has potential for development.

Table 1 Structure of the banking system of Ukraine in terms of groups of banks by assets

Groups of banks	**2018**	**2019**
State-owned banks (in which the state holds more than 75%)	6	5
Banks of foreign banking groups	25	21
Private equity banks (not less than 50% of the authorized capital)	63	51

As of December 2019, 75 banks were operating in the country (Fig. 2), including:

- banks with foreign capital – 36 (including 23 – with 100% foreign capital);
- state-owned banks – 6.

As of April 30, 2019, 88 banks are in liquidation.

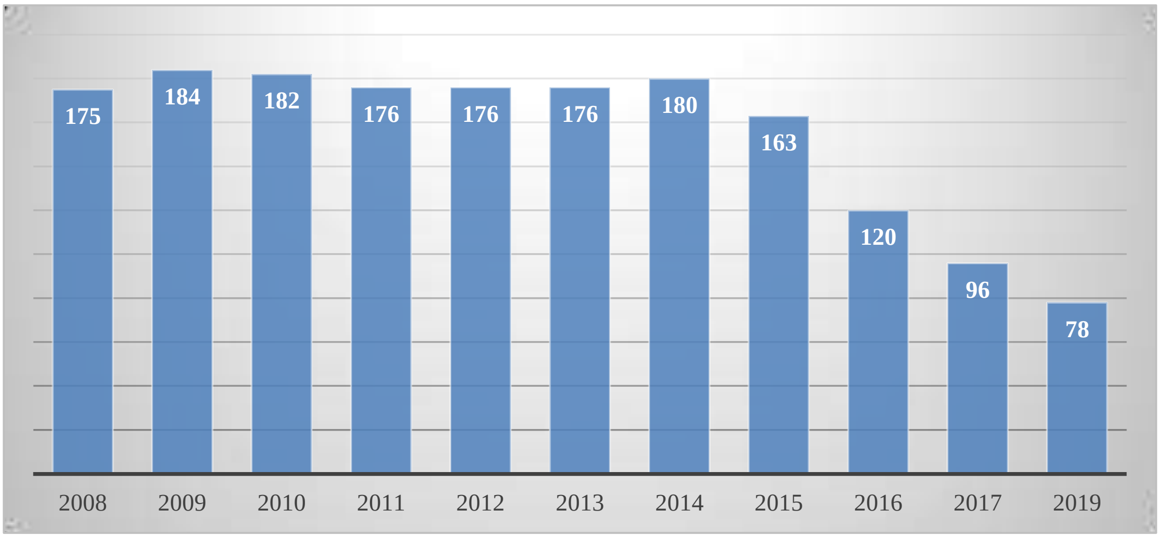

Figure 2 Number of banks in Ukraine by years

To find out the role of monetary policy in a market economy, it is essential to understand the tasks that are set by monetary authorities and are solved by monetary methods. These objectives are commonly referred to as monetary policy goals. In general, they can be divided into three groups: strategic, intermediate, tactical (Fig. 3).

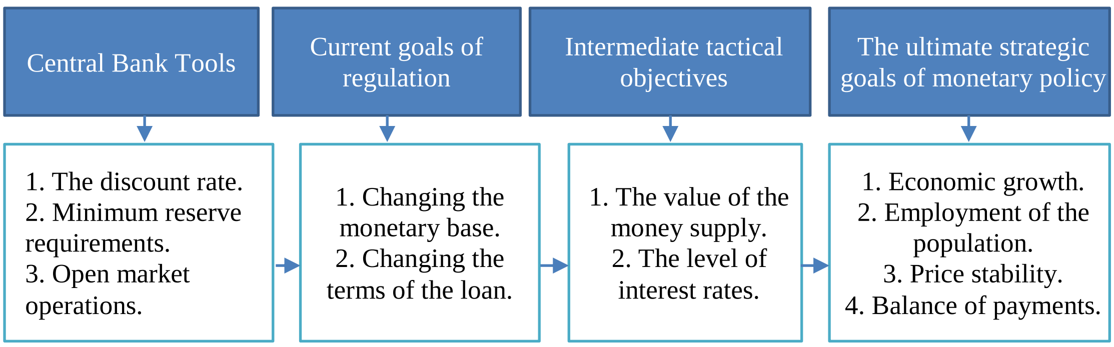

Figure 3 Classification of central bank monetary policy goals and instruments

The strategic goals of the monetary policy of the central bank should be the ultimate goals of the economic system of the state, achievement of such economic growth, which will ensure high employment of the population, price stability and exchange rate of the currency. The central bank should help to achieve these goals. He should have no disagreement with the government on strategic objectives.

The well-being of the country's population is closely linked to employment rates. The output is achieved in the context of low inflation, that is, informally unstable prices.

3. INSTRUMENTS OF MONETARY-AND-CREDIT POLICY

Monetary policy affects the state of the money market (both on money supply and monetary demand) and therefore on the economy through the use of appropriate instruments.

The latter include the administrative, economic, legal and informational levers used by the National Bank of Ukraine to maintain equilibrium in the monetary market and ensure economic growth (Fig. 4).

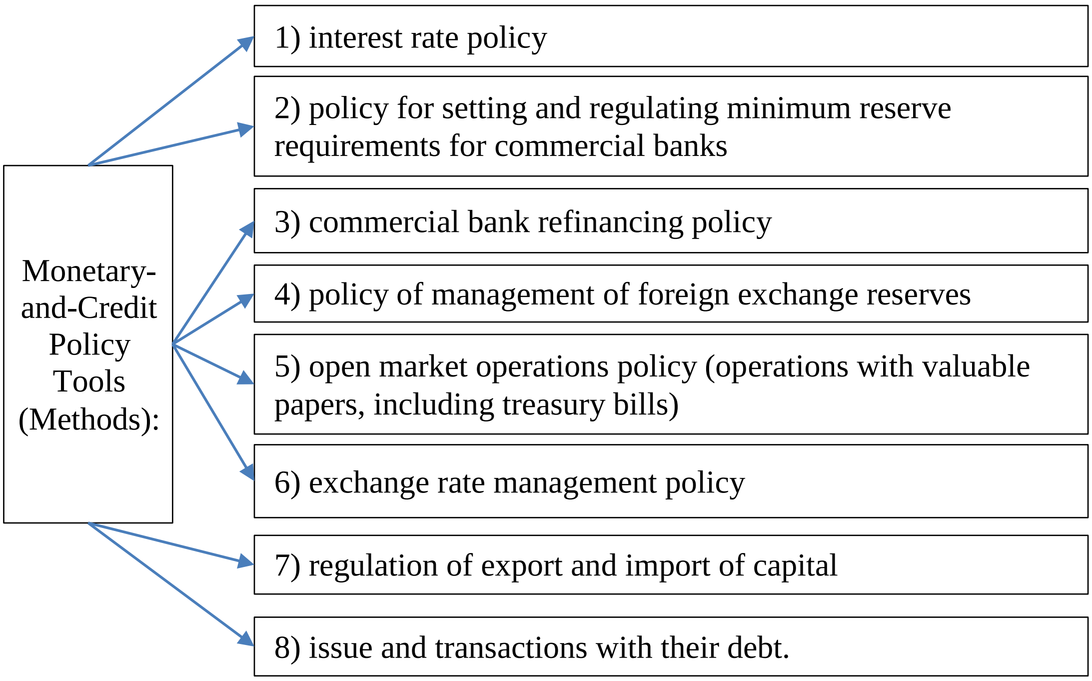

Figure 4 Classification of central bank monetary policy goals and instruments

3.1. Interest Rate Policy

Interest rate policy is used to improve the means and methods of implementing monetary policy in terms of defining interest rates on the operations of the National Bank of Ukraine and indicative regulation of banks' activities.

3.2. Mandatory Fallback Policy

In all European countries, reserve requirements were introduced to manage the liquidity of the banking system. Nowadays, the more specific goal is to use the required reserves for monetary regulation of the long-term problems of stabilizing money circulation and curbing inflation. In countries with a stable economy, a high degree of market relations development, a highly developed banking system, there is no need to regulate banking activities through this mechanism, so the obligatory reserves in the management of the monetary market play a minor role. At times when a market economy is emerging in a particular country, there is a need to use reserve requirements as a guarantee of the stability of the banking system as a whole, which is observed in Ukraine.

The use of reserve requirements in transition economies is shown in Table 2.

Table 2 Reserve requirements functions in transition and developing countries

Country	Interest rate buffer	Regulation of liquidity	Money supply regulation	Taxation
Northeast Asia				
Indonesia		●	●	●
India		●	●	●
South Korea	●	●		●
Malaysia	●	●		●
Singapore		●		●
Thailand			●	●
Latin America				
Brazil			●	●
Chile				●
Colombia		●		●
Mexico	●	●		●
Peru		●	●	●
Central and Eastern Europe				
Bulgaria	●	●	●	●
Hungary			●	●
Latvia	●	●	●	●
Lithuania	●	●	●	●
Poland	●			●
Ukraine		●	●	●
Slovakia		●	●	●
Czech Republic		●		
Estonia		●		
Other countries				
Israel				●
Saudi Arabia		●	●	●
South Africa	●	●		●

Table 2 shows that the buffer function in these countries works less efficiently than in industrial countries.

3.3. Refinancing Operations

Refinancing operations are loans granted by the National Bank of Ukraine as a lender of last resort to perform the refinancing function. The National Bank has the right, but not the obligation, to provide loans to refinance the bank if it entails risks to the banking system.

3.4. Management of Gold Reserves

Management of foreign exchange reserves is a set of measures for the formation of an optimal structure of foreign exchange reserves and their rational allocation, carried out by the central bank and/or the ministry of finance to maintain foreign exchange reserves at an acceptable level for a particular country.

3.5. Open Market Operations

Open market operations are a tool of the monetary policy of the state, the essence of which is the purchase and sale by the central bank of securities on the open market. This tool is used to regulate the liquidity of the banking system, influence the level of market interest rates.

3.6. Currency Market Operations

Through operations in the foreign exchange market, the central bank can regulate the money supply in circulation, while maintaining the corresponding stability of the national currency. Acting as a buyer in the foreign exchange market, the central bank issues additional national money and buys foreign currency for it, and in the role of a foreign currency seller withdraws national currency from circulation.

3.7. Regulation of Import and Export of Capital

The National Bank regulates the import and export of capital following the legislation of Ukraine on foreign economic activity and the system of currency regulation and currency control. The main document based on which it is possible to study the process of regulating imports and exports is the balance of payments.

3.8. Issue of Own Debt Obligations and Operations with them

The National Bank of Ukraine carries out deposit operations with banks by issuing its debt obligations or concluding deposit agreements. The certificate of deposit of the National Bank is one of the monetary instruments; it is debt security of the National Bank in non-documentary form, which certifies the placement of funds of banks in the National Bank and their right to receive the deposited amount and interest after a specified period.

4. RESULTS AND DISCUSSION

Monetary policy in securing economic development is of particular importance in any country in the world. Depending on the phase of the economic cycle and the specifics of the application of the instruments, two types are distinguished: restriction and expansionist. With the economy overheating and the need to stabilize prices, improve the balance of payments, restrictive measures are applied, in particular, there is an increase in interest rates to reduce lending and slow down business activity. Conversely, in times of economic downturn, interest rates are being reduced to stimulate lending and investment activity, economic growth and reducing unemployment.

The NBU Strategy defines that the main goals of the activity are low and stable inflation, efficient banking system, resumption of lending and currencies for liberalization, effective regulation of the financial sector, free movement of capital, financial inclusion, a modern, open and independent central bank. Thus, the National Bank's policy is aimed at ensuring price and financial stability and, as a result, macroeconomic stability. However, the role of the central bank is not only to ensure stability but also to stimulate economic growth. Mandatory reserve setting, interest rate policy, refinancing, deposit operations, foreign exchange interventions, securities transactions form the basis of the central bank's mechanism for influencing money supply, bank activity and the development of the national economy. To achieve price stability, the National Bank has been using inflation targeting since 2016. Based on the assessment of internal and external development trends, the central bank sets the inflation target and is fully responsible for price stability in the country. However, he failed to meet inflation targets, due to hostilities in the east, rising wages and tariffs for housing and communal services, inflationary expectations of citizens amid constant speculation around negotiations with the IMF, currency instability, currency instability -inflationary spiral. In

2014, inflation amounted to 24.9%, in 2015 – 43.3% in the context of GDP decline in 2014 by 6.5% and rising unemployment to 9.3%; in 2015, GDP fell by 9.8%, which is a sign of stagflation. All this is against the backdrop of a decline in the level of monetization of the economy, which reflects the demand for real money, demonstrates public confidence in the national currency and monetary policy. During 2014-2018, the dynamics of this indicator showed a decrease, and in 2018 it amounted to 35.8%, while in developed countries it is more than 60%. Hryvnia devaluation, increase in the general level of prices, tariffs negatively influenced the aggregate demand and led to an additional reduction of GDP in 2014-2015. 6.0% and 9.8%, respectively. Significant discrepancies between the projected and actual inflation rates testify to the National Bank's inability to control price levels, which threatens economic and national security. Considering the dynamics of the discount rate and the weighted average of refinancing instruments (Fig. 5), monetary policy can be described as rigid, yielding inflation in 2018 from 13.7% to 9.8% and reducing the volatility of the exchange rate. course.

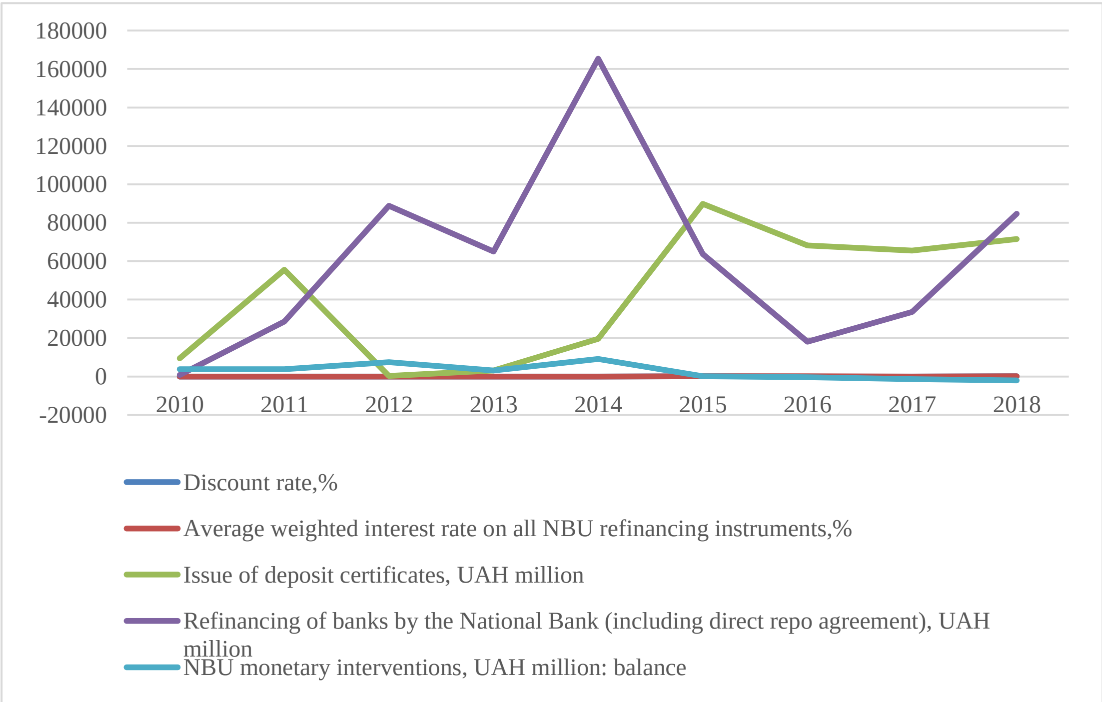

Figure 5 Dynamics of NBU Individual Monetary Policies for 2010-2018

On the other hand, we see a decrease in the volume of issuance of deposit certificates and an increase in refinancing of banks. Political and economic instability has adversely affected banking activities. In 2014-2015, the real interest rate on loans, in general, was negative, which determined the loss of banking activity. The volume of refinancing of banks in 2014 amounted to over UAH 165 billion, which reached 10.6% of the country's nominal GDP. As a result, the NBU's foreign exchange reserves dropped from $ 20.4 billion. In 2013 to $ 7.5 billion. In 2014, in 2018 amid negative inflation expectations, the real interest rate on loans increased to 9.3% (Fig. 6), which holds back credit and investment activity. To activate the credit activity of banks, it is necessary to ensure the real value of credit resources, to increase the credibility of financial institutions, to create a single credit registry, to provide real protection of the rights of consumers of financial services. In the fight against excess liquidity, in 2014, the volume of deposit operations increased by 9.4 times compared to 2013, in 2015 compared to 2014 - 6.3 times, in 2016 compared to 2015 - 4, 6 times. However, withdrawing money from circulation requires considerable central bank spending, which leads to higher interest rates and a decrease in domestic capital competitiveness.

In the face of bank liquidity surplus and the need for real sector lending, the central bank attracts funds through deposit certificates instead of managing the issue of money more effectively and stimulating lending to the economy. Improving the effectiveness of the NBU policy through the transmission channel's interest channel requires stimulating the development of the interbank market; reduction of interest rate volatility and determination of benchmarks for the formation of value for money; ensuring the dependence of the basic interest rates on the discount rate, the frequency of changes of which should be planned in advance in order to reduce uncertainty and to form positive subjective expectations and confidence in the NBU. Unlike in Ukraine, developed countries are characterized by low-interest rate volatility, which makes government policy predictable and enhances central bank effectiveness in ensuring financial stability.

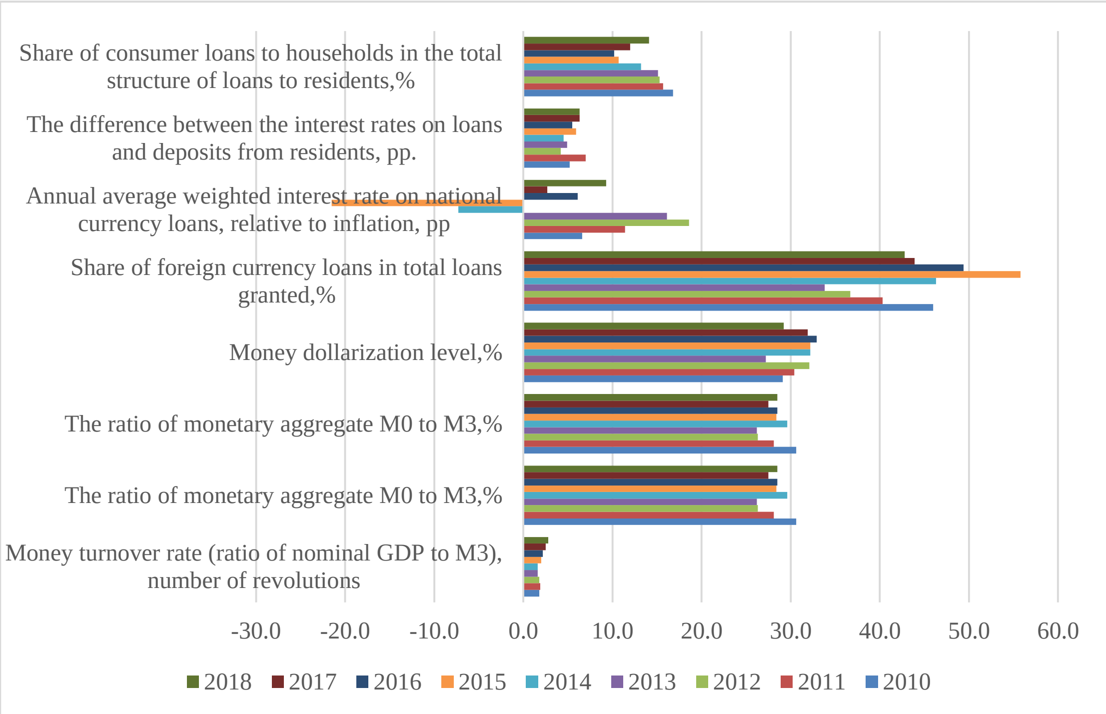

Figure 6 Dynamics of monetary and credit security of Ukraine during 2010-2018

The main threats to the monetary and credit security of Ukraine are the high level of dollarization of the money supply, the high level of cash use, the cost of credit resources (Fig. 6). However, this is only part of the threats, since monetary security also depends on the efficiency of banking activities, the implementation of fiscal and debt policy, factors of an institutional nature (legal framework, shadow economy, confidence, etc.). We agree that the growth of external borrowing and the dollarization of the economy limit monetary policy. Against the backdrop of low economic growth, negative inflation expectations, growing budget deficits, a negative balance of payments current account, a reduction in foreign exchange reserves, external debt is one of the threats to Ukraine's national security, which in 2018 amounted to 87.9% of GDP. Despite the goals and activities of the National Bank for the development of virtual channels of the service economy, the level of cash use remains stable – 28.5% in 2018, which is associated with economic instability, high inflation, low public welfare, distrust of the banking system, by shadowing the economy. Overcoming macroeconomic imbalances, increasing citizens' incomes, developing and promoting payment infrastructure using mobile devices will contribute to the growth of the non-cash economy. One of the priorities of the central bank is to reduce the dollarization of the money supply. Despite a slight decrease in the share of foreign currency loans in total lending, this figure remains threatening, at 42.8% in 2018.

The country's hostilities, high levels of external debt and the threat of default, imperfect tariff policy and negative inflation expectations, underdevelopment of the stock market, the volatility of the exchange rate and the absence of any central bank safeguards against currency risks, low levels of confidence in the national economy, which limits the effectiveness of the monetary policy. Changing the reserve requirements during 2008-2014, including raising them in foreign currency deposits and reducing them to zero in national deposits, did not solve the problem of dollarization of the economy.

5. CONCLUSION

The stability of prices and the exchange rate, investment activity and economic growth depends on the effectiveness of monetary policy implementation, which in the conditions of political instability determines the readiness of the economy to withstand external aggression and therefore affects the state of national security. Formally, the NBU has switched to inflation targeting, and in fact, it has a limited impact on price dynamics. The effectiveness of inflation targeting policy is possible under conditions of high public confidence in the central bank and financial institutions, development of the financial sector, ensuring a competitive environment, fiscal stability and debt security. The NBU uses mainly traditional instruments to ensure durability and stimulate economic growth, while in developed countries, securities, long-term lending are the main instruments.

The substantiated need for modernization of available instruments of monetary policy of Ukraine in the conditions of market restrictions in the domestic and foreign markets and identified alternative tools of influence on economic growth available to the NBU. To achieve this goal, the following tasks were solved. Firstly, the state of the national banking system, which is the primary recipient of the impact of monetary policy, is examined, its strengths and weaknesses are revealed. Secondly, the targets and operational tasks of the NBU monetary policy are systematized, and the most effective tools are identified. Thirdly, the effectiveness of the NBU's monetary policy, carried out using the existing arsenal of instruments, was assessed, its anti-crisis regulation was examined. Finally, proposals have been put forward for the introduction of new tools and methods for implementing monetary impact, and for the necessary reform of the goals and objectives of monetary policy.

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